



**Consumer
Focus**
Campaigning for a fair deal

Consumer Focus response to DECC's consultation on the Renewable Heat Incentive

April 2010

About Consumer Focus

Consumer Focus is the statutory consumer champion for England, Wales, Scotland and (for postal consumers) Northern Ireland. We operate across the whole of the economy, persuading businesses, public services and policy makers to put consumers at the heart of what they do.

Consumer Focus tackles the issues that matter to consumers, and aims to give people a stronger voice.

We don't just draw attention to problems – we work with consumers and with a range of organisations to champion creative solutions that make a difference to consumers' lives.

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Summary

Consumer Focus welcomes the opportunity to comment on the Government's proposals to provide incentives for consumers, communities and businesses to switch to renewable sources of heat.

We have supported the development of this policy and recognise the challenge facing DECC in developing the first scheme of this type in the world. We recognise the need to move away from reliance on fossil fuels and towards delivery of the three policy objectives with regard to fuel poverty, energy security and cuts in carbon emissions. However, the proposals fail to deliver an incentive that adequately addresses these drivers. Instead, the consultation document sets out a market transformation programme that may be paid for by consumers with little assurance that the programme will deliver its intended benefits.

We have serious misgivings with the proposed scheme. These are centred on:

- the lack of hard evidence concerning the potential cost of the scheme
 - Renewable Heat Incentive (RHI) could add as much to heating bills as the Carbon Emissions Reduction Target (CERT), Renewables Obligation Certificates (ROCs) and Feed-In Tariffs (FiTs) combined, yet will be inaccessible to many consumers due to the upfront costs, or physical restrictions such as house type, location or tenure
- the absence of obligations to improve energy efficiency ahead of deploying renewable heat systems
- the absence of provisions to ensure rural off-gas communities reliant on carbon intensive fuels are among the first to benefit from the scheme
- unclear interactions with other existing and proposed energy efficiency/low carbon programmes – particularly with regards to funding and the accessibility for low-income consumers

Most concerning is the lack of indication of how the scheme will be funded. If funded through consumers' bills, it is expected to increase annual domestic gas bills by 9 to 21 per cent by 2020¹. As the RHI scheme is, in effect, a market transformation programme, needed to overcome the sunk costs and incumbent advantage to gas suppliers, it brings direct benefits for industry, for employment and for shareholders. The cost of achieving these economic benefits should not be carried by energy consumers who in many cases may not be able to access the scheme due to upfront-costs, house type or location, or tenure.

Consumer Focus calls for an urgent review of the proposals, focusing on the expected benefits both today and the future, which may require a delay in the implementation date of April 2011.

¹ Impact Assessment of the Renewable Heat Incentive scheme for consultation in January 2010 (<http://bit.ly/9hVMKZ> PDF 537KB) Table 8, p26

A fair and efficient scheme would:

- use a funding model that reflects the broad societal, environmental and economic benefits of an effective renewable heat programme, and that protects consumers in, or at risk of, fuel poverty
- reward only useful and necessary heat
 - in the short-term use the RHI application process to drive uptake of energy efficiency measures that are cost-effective and durable
 - in the mid-term embed the RHI within a whole house approach as part of the Household Energy Management programme
 - review and address the risks of over-payment for metered heating systems, which incentivise generators to waste heat in order to maximise income
- scale renewable heat systems to the demand remaining after the implementation of more cost-effective energy efficiency measures, reducing the systems' running costs and the levy that is placed on all consumers' bills
- link the incentive to the displacement of fossil fuels; the scheme must not incentivise the replacement of efficient gas boilers, it should also focus on delivering cost and carbon savings off the gas network

In the final section we document our support for the move to support district heating. However, we question the assumption that networks should only be further incentivised where they meet the needs of hard-to-treat properties, 'since other parts of the network could feasibly be supported by stand-alone renewable technologies'. Consumer Focus does not support the prioritisation of small-scale technologies over larger scale solutions as a matter of course. Renewable and low carbon heat must be delivered strategically and cost-effectively, and we therefore ask the Government to address our concerns about this the full costs and risks of its current approach:

- heat pumps would lead to a dramatic increase in winter electricity demand with huge extra capacity needs. Much of this will have extremely low load factors and which would lie idle most of the time
- heat pumps could lead to increased spending on local distribution and transmission networks
- optimistic assumptions are being made about the effectiveness of heat pumps, which have yet to be experienced in the UK
- inaccurate assumptions about the loss in electrical output from thermal power stations operating in co-generation mode against power only mode

Our response

Our response focuses on the principles behind the consultation that DECC must address before the detail of implementation is discussed further.

We note that annual 2020 subsidy costs for DECC's preferred option are £2.4 billion in 2020, which may lead to an annual average household bill increase of 9 to 21 per cent. This high cost is even more concerning as the climate change policy cost-effectiveness-indicator results conclude that none of the carbon savings likely to result under the scheme will be cost effective². The proposals also risk disadvantaging consumers who are already vulnerable in some way, as they do not address all the financial and physical barriers to take up of the proposed incentives facing consumers.

This document therefore focuses on three key principles: who pays, cost effectiveness and accessibility.

The final section addresses the proposal to further support district heating for hard-to-treat homes.

1. Who pays?

We welcome DECC's decision to revisit the method of funding the incentive but are very concerned that there has been no further debate on the funding model and no proposal has been made during this consultation period (contrary to expectations set by DECC).

The RHI scheme is in effect a market transformation programme. It should help the UK meet politically-agreed renewables and carbon emission targets. It should accelerate the deployment of immature technologies, with a view to bringing down costs more rapidly than would otherwise occur under a business-as-usual approach. Market transformation is needed to overcome the sunk costs and incumbent advantage in our energy supply industry and brings direct benefits for industry, for employment and for shareholders.

However the cost of these economic benefits should not be carried by energy consumers who in any case may not be able to access the scheme due to upfront-costs, house type or location, or tenure.

Funding renewable heat through energy bills will inevitably see those consumers on lower incomes paying a disproportionate amount for schemes that have a broad social, economic and environmental benefit. We support a mixed approach of levies and public expenditure that reflects these benefits, with levies on domestic consumers conditional upon complementary policies to ensure renewable heat is installed in low income homes.

Fuel poverty

Levying the costs of the RHI on consumers' energy bills is likely to significantly aggravate fuel poverty. Such a levy has a disproportionate impact on those on low incomes, who are also the group least likely to benefit from the scheme. This is because they are likely to:

² Impact Assessment of the Renewable Heat Incentive scheme for consultation in January 2010 (<http://bit.ly/dCXg8T> PDF 537KB), p20

- lack access to upfront capital
- be unwilling or unable to access loan schemes, especially if the interest rate is set by the market on the credit worthiness of the individual consumer
- lack physical ability to handle materials for biomass boilers
- lack the space to install systems (eg storage of biomass, roof-space for solar)
- live in rented property
- live in high density housing in urban areas, or old, hard-to-heat homes that are unsuitable for heat pump technology

Off-gas consumers

However the scheme has the potential to help some consumers in fuel poverty, particularly off the gas grid and in colder climates in the north of Great Britain, and we believe these customers should be specifically targeted.

We therefore recommend that the CERT mechanism and its successor are used to deliver renewable heating systems appropriate to the property type and location of priority group consumers. CERT can fully fund energy efficiency measures and the upfront costs of renewable heating systems, with the costs of the latter partly paid back through the RHI. This would reduce disruption, administration and delivery costs from separate arrangements, and maximise the opportunity to help someone improve the energy efficiency of their home.

We also support the development of low carbon district heating to serve urban off-gas communities, potentially through the uplift considered in the district heating call for evidence.

We are opposed to the imposition of a levy on heating fuels used by domestic consumers off the gas network in the short term. Our research³ has found that consumers in the heating fuels market suffer from:

- lack of access to social tariffs
- lack of choice
- poor transparency
- lack of credit and poor customer service

and we do not think they should be asked to pay more for this service. The Government should only apply the RHI levy to off-gas homes once they have had the opportunity to benefit from energy efficiency measures under CERT or the new Home Energy Management Strategy (HEMS), which is due to replace CERT from 2012. The Government should also introduce a complementary strategy to address failures in the off-gas heating fuels market. Such a strategy should address market structure, payment option diversification and departmental responsibility.

Fair contribution by sector

If the incentive is to be part or fully funded through energy bills, Consumer Focus wants the levy differentiated by sector or scale. NERA's modelling of additional resource⁴ shows that 86 per cent of the new systems will be medium or large scale. Domestic consumers should not pay a disproportionate part of the bill for this incentive.

We therefore want to see proportionate levies applied to domestic and small business energy consumers, if the costs are to be recovered through energy bills and not (as we would prefer) through taxes.

³ <http://consumerfocus.org.uk/g/4lc>

⁴ Design of the Renewable Heat Incentive Study for the Department of Energy & Climate Change (<http://bit.ly/dkK7ib> PDF 1.07MB), p18

Transparency

Greater transparency should be rapidly introduced to all environmental and social schemes paid for via energy bills to ensure the costs passed onto consumers are fair and are delivering value for money, and consumers should also be made aware of schemes that can help them.

The Government should report routinely on the take-up of measures, the costs, and on other financial, social and environmental impacts. We want to know that all schemes are cost-efficient, delivering carbon savings, moving consumers to more secure energy supplies, and that the schemes are delivered to those most in need.

Ofgem is now providing greater oversight of the relationship between retail and wholesale energy prices. The regulated fraction of the bill is also reasonably well understood as a result of the price control processes and the regulatory reporting pack processes. However similar scrutiny must be applied to the delivery of energy efficiency/low-carbon programmes whether funded through levies or general taxation.

2. Cost effectiveness

The consultation's climate change policy cost-effectiveness-indicator results conclude that none of the carbon savings likely to result from the incentive will be cost effective⁵. Consequently Consumer Focus has significant concerns about the proposals, particularly in terms of the impact on consumers' bills but also the ongoing running costs for generators.

The key issue is the level of energy efficiency required prior to the installation of renewable heating systems. A minimum requirement could:

- reduce the carbon intensity of homes and reduce their heat demand
- avoid installation of unnecessarily large systems, reducing
 - the space needed
 - the levy placed on energy consumers' bills
 - the running costs, whether the input is electricity or biomass
- provide an incentive for consumers to undertake energy efficiency measures
- provide a trigger point for engaging consumers in the energy performance of their homes
- deter use of systems in unsuitable properties, avoiding waste of energy consumers' (or taxpayers') money, and damage to the reputation of the industry
- encourage businesses to provide a whole house service, particularly useful given the few trigger points for considering a change to heating systems and the urgency that may drive these decisions

Whole house approach and the energy hierarchy

Consumer Focus is very concerned that the HEMS suggests that there is a choice to be made between solid wall insulation and heat pumps. The cuts needed in carbon emissions, and the costs and disruption relating to the measures necessary to achieve those cuts, require the rigorous application of the energy hierarchy through joined-up policies. Furthermore, it is essential to insulate the home before installation of heat pumps as they produce lower temperature heat than traditional boilers⁶, and to be effective homes need to be well insulated and airtight.

⁵ Impact Assessment of the Renewable Heat Incentive scheme for consultation in January 2010 (<http://bit.ly/dCXg8T> PDF 537KB), p20

⁶ Energy Savings Trust (<http://bit.ly/9j3gi0>)

We recognise that not all generators will be able to fund the energy efficiency measures prior to the installation of renewable heating systems, particularly in advance of the introduction of financial mechanisms for consumers to fund energy efficiency.

Consumer Focus would support some flexibility around the time for installing energy efficiency measures. We propose that the RHI is only payable where:

- technology is proven to be effective for the property type
- installations providing space heating are only permitted where the property is fully insulated
- retrospective payment of the incentive is allowed if energy efficiency measures are installed within, say, two years of the renewable heat measure being deployed, reduced to one year following the introduction of pay as you save (PAYS) arrangements

The RHI must only be payable for relevant and reliable technology, and only on completion of more cost-effective energy efficiency measures.

Any minimum standards for energy efficiency measures need to recognise the challenge in addressing the older properties in the housing stock. It is time to move beyond minimum standards applicable to only cavity walls and loft insulation given that the Government expects this work to be complete by 2015. Furthermore, the proposed minimum standard for loft insulation in the consultation is less than half the optimal amount recommended by the Government elsewhere⁷. These minimum standards show a worrying lack of ambition given the aim to deliver two-thirds of domestic emissions' savings through energy efficiency measures⁸ and the few opportunities to encourage take-up of higher cost energy efficiency measures.

Minimum standards must relate to the property and the planned heating system in order to deliver long-term cost-effectiveness for the property-owner and energy consumer or taxpayer.

Consumer Focus and the End Fuel Poverty Coalition⁹ call for a national programme to improve all dwellings to a minimum standard of Energy Performance Certificate (EPC) Band B (SAP 81 and above) where practical, or EPC Band C where this is not feasible.

Interaction with other policies

As structured at the moment, the proposed RHI misses an opportunity to ensure that properties installing renewable heat technologies also take up energy efficiency measures. However we recognise that in most cases the up-front costs of installing energy efficiency measures or renewable heat systems in isolation are prohibitive for most consumers, and in combination the cost barriers would be greater. A joined-up roll-out could deliver huge benefits in terms of both effectiveness and affordability, especially if backed up by supporting financing mechanisms.

⁷ Act on CO₂ (<http://bit.ly/cfDNwT>)

⁸ National strategy for climate and energy – The UK Low Carbon Transition Plan (<http://bit.ly/b6MBGH>, PDF 5.16MB) p81

⁹ Fuel Poverty Charter (<http://consumerfocus.org.uk/g/4lf>), supported by Association for the Conservation of Energy, Centre for Sustainable Energy, Disability Alliance, Friends of the Earth, Consumer Focus, Age UK (Age Concern and Help the Aged), Child Poverty Action Group, Federation for Private Residents' Association, Macmillan Cancer Support, National Childbirth Trust, National Energy Action, National Pensioners Convention, National Right to Fuel Campaign, Unison, National Federation of Women's Institutes.

As matters stand, the staged interaction of policies, with whole-house funding mechanisms (such as PAYS) proposed for the introduction of the HEMS from 2013, means that the RHI will be out-of-step with existing programmes leaving the majority of consumers unable to finance installations.

Consumer Focus believes that the RHI must be integrated with other programmes for the delivery of insulation to optimise carbon savings. Integration should also help avoid duplication of effort in administering schemes. Installations that are subject to concurrent grant schemes¹⁰ or minimum standards set by regulation (such as the Low Carbon Communities Challenge or Zero Carbon Homes after 2016) should not have access to the RHI. The Low Carbon Communities Challenge should provide some useful in-depth case studies for consumer and community engagement, but in paying the RHI on top of the original grant, the Government is diminishing the relevance of the lessons learnt for small scale energy generation. More concerning is the payment of the incentive for new homes. Energy consumers should not be required to subsidise the construction of new homes and the meeting of minimum construction standards.

If very clear linkages are not made between the RHI and other supplier obligations (currently CERT but subsequently the energy company obligation), too many opportunities exist for perverse outcomes or unintended consequences. For example:

- oversizing of the biomass boiler or heat pump giving rise to unnecessary capital costs and higher deemed payments of RHI
- the opportunity to undertake whole-house measures is missed
- household sized installations may be favoured in the near-term, although local authorities may seek to develop district heating once the HEMS is in place
- if the incentive is paid according to remaining heat demand, there is a less incentive to build new homes to a very high energy efficiency standard
- deployment of large numbers of heat pumps could put pressure on electricity distribution networks in some areas

Many low-carbon schemes, including those enabled by the RHI, require householders or landlords to undertake major works to their properties. However separate schemes for renewable heat, FITs and energy efficiency installations can lead to inefficient deployment strategies; consumers may receive incomplete information on one or all options open to them. Further, financing arrangements may be cheaper if all measures are rolled into one package, rather than three or more separate arrangements.

The replacement of a property's heating system is often a distress purchase. If access to PAYS or other funding and advice is trusted and clear, it could act as a trigger-point for the property owner to consider the long-term costs of heating and potential for reducing their heating demand through energy efficiency or behavioural measures. However if the RHI and other programmes are poorly communicated and understood, this opportunity could be missed.

There is clearly a balance between providing incentives for early take up on sufficient scale to permit real progress to be made against targets in the short term and enabling optimal adoption of measures in the round over the medium. We feel DECC has failed to address how this balance can be struck.

Rewarding the right installations

Consumer Focus supports the use of an accreditation and redress scheme to protect consumers from poor quality service or products, but is unable to comment on the reliability of technology in advance of the completion of field trials by Energy Saving Trust (EST). We hope DECC will restrict the applicability of the RHI to technologies that consistently meet minimum performance standards based on real field data.

¹⁰ Other than grants made to domestic installations prior to the publication of the final scheme.

Given the challenge ahead, it would be a mistake to encourage the roll-out of technologies where there are doubts about their reliability.

The RHI should only be payable where the system can be shown to have displaced use of fossil fuels and where the consumer will be saving money.

We know that a number of consumers using heat pumps this winter have suffered from high electricity bills¹¹, and we are very concerned that consumers may be misled about the cost savings from these systems. Generators must not end up with higher running costs than their older systems, and those footing the bill need to know that they are incentivising useful heat. See further comments below regarding the infrastructure costs for this technology.

Renewable heating systems must be shown to deliver carbon and cost savings in order for the individual site to be eligible for the RHI.

Effectiveness of heat pumps

We understand from REAL Assurance that the electricity bills received by heat pump users this winter are real cause for concern. These may be due to undersized systems or due to poor insulation and draught levels. In general, British homes have poor thermal insulation, are not airtight and have radiators sized for hot water at 60 °C. This means that substantial retrofit has to be undertaken to adapt homes to make use of the low temperature heat which is efficiently produced by domestic heat pumps.

Making these changes in hard-to-treat homes is a significant and disruptive extra cost for the homeowner. EST is to publish results from field trials from 50 air source heat pumps (ASHP) and 50 ground source heat pumps (GSHP) and this will provide some welcome UK data on the performance of domestic heat pumps in UK homes; including any necessary changes to heating systems, insulation, how airtight the home is and any behavioural changes to make use of 'background heating'.

The effectiveness of heat pumps must also be considered in comparison to other measures. In particular, domestic heat pump systems do not offer carbon savings for consumers with A-rated gas boilers, and district heating may be more cost-effective for densely populated areas.

We have seen in other cases that consumers have had a positive experience of heat pumps, where the appropriate insulation measures are taken. They have a particular role to play in meeting the needs of more remote homes and communities, where heat and gas networks are less cost-effective to install and heat pumps are able to make carbon savings in comparison to heating fuels (with the right levels of insulation).

We do not support the rollout of measures while technology is unproven in British homes, as this holds risks for consumers and the future of the industry. **Consumer Focus therefore supports an accreditation process that limits support for products by property type and energy performance.**

Peak electricity demand for heating and impacts on generation

We are concerned about the potential pressure that a large-scale rollout of heat pumps will place on electricity supplies at peak times, and the cost of the infrastructure required to meet this peak demand.

¹¹ REAL Assurance are to provide details to DECC

The RHI impact assessment states that there will be a minimal net impact on the electricity market because 8.4 Terawatt hours (TWh) is currently used by electric heating, and the demand from heat pumps in 2020 is expected to be 8.3TWh¹². However, 55 per cent of electric central heating systems use storage heating¹³ which often takes advantage of lower off-peak prices.

It is therefore insufficient to consider the net impact; we need to understand when consumers and district heating systems will use heat pumps and the level of heat storage, and therefore the peak demand and resultant impact on capacity and infrastructure costs.

Capacity costs money, and inefficiency grows the longer that capacity lies dormant. This could be six months of the year or more for meeting heat demand at these levels¹⁴. Further, the supply must be responsive to demand, and may not be achieved through nuclear or wind plant; additionally demand may begin to rise during the rush hour, limiting the potential use of electricity stored in car batteries. Extra demand on electricity distribution and transmission networks might require substantial work to up-grade local wires and substations in areas of high demand, especially city centres.

DECC must review the claim of minimal impact of its proposals on the electricity network and consider the use of heat (or electricity) storage to manage peak demand in order to avoid capacity and infrastructure costs. This should recognise that the need for sufficient storage space raises another barrier to uptake. It seems that district heating (and heat pumps may be the heat source for such networks) could offer a more cost and space effective way to deliver heat storage as well as supply.

Deeming

We support the use of 'deeming' while heat metering remains relatively expensive, and as a way to encourage efficient generation and use of heat. However, there should be a metering programme to monitor the actual running costs and heat output of systems in different property types, in order to check on the accuracy of the deeming process. Over time we would expect heat metering to become affordable, and to be installed as standard with deemed levels used as a check for fraudulent claims.

Tariff bands

We also support the banding of the incentive, but only if it continues to reflect the cost-effectiveness of different technologies at different scales. Larger scale schemes should be more cost effective and lower risk, and there is the potential to reward this through a higher return on investment while still paying a lower incentive per kilowatt hour (kWh) than for a domestic-size installation.

Tariff banding should reward cost-effective installations.

A rigorous approach to detect fraudulent claims must be implemented. Guidance to generators must include a plain language statement on what could constitute fraud, the powers that Ofgem has, and the action that generators can take to protect themselves from taking unwarranted payments in the case of faulty equipment. Accredited installers also have a role to play in preventing unwarranted payments by incorporating regular servicing into warranty schemes. All parties must be clear on their responsibilities in deterring fraudulent activity, and on the potential sanctions.

¹² Impact Assessment of the Renewable Heat Incentive scheme for consultation in January 2010 (<http://bit.ly/dCXg8T> PDF 537KB), p27

¹³ Energy consumption in the UK, data tables (<http://bit.ly/aCo64o> Excel 456KB)

¹⁴ Vaze, P (2010) Response to RHI consultation, drawing from National Grid (December 2007) *Gas Demand Forecasting Methodology*

To ensure payments are not made to installations that have ceased to operate, it must be a condition of the scheme for systems to be regularly inspected. This will also enable a safety check to be undertaken.

Early adopters

Consumer Focus has heard concerns from existing biomass consumers about the impact of the RHI on the cost of biomass because of the greatly increased demand.

While there is a need for a higher incentive for the next group of entrants, early adopters must not be left out of pocket as this potentially reduces early take-up of other carbon-saving technologies or practices.

The Government should review its approach to incentivising only new adopters, which risks delaying the take-up of other pro-environmental behaviours.

Security of supply?

We question the argument that by switching to renewable heat and away from fossil fuels consumers will be protected from increases in fuel prices. We have not seen anything which demonstrates that a biomass market will be any cheaper, more competitive or less volatile in the long run than established fuel markets. Indeed, during discussions at the Energy Efficiency Partnership for Homes (EEPH) event in March 2010, the Country Land and Business Association (CLA) said that the biomass price will have to rise to make the market attractive to English suppliers.

We are also concerned by the carbon emissions resulting from the transportation of biomass if it cannot be supplied regionally or within the UK. These emerging fuel markets are immature, and at a larger scale many biomass generation schemes are being designed around import from remote markets.

A further review is needed of the biomass fuel market to consider the security of supply, the potential running costs for consumers, and the carbon costs of meeting that demand.

Proposed implementation date

The proposed implementation date of April 2011 is particularly concerning as it would introduce an untested and expensive supplier obligation out of step with other energy efficiency/carbon reduction programmes, most of which¹⁵ are due for review or renewal in 2013.

If the introduction of the full RHI was delayed until this latter date it would allow other complementary programmes to be better aligned, particularly in terms of funding and facilitating the Government's whole-house approach to reduce household carbon emissions. Renewable heat installations will cause significant disturbance for households and, if completed ahead of the introduction of mechanisms to encourage whole-house energy efficiency improvement, it is likely that property owners will be less inclined to seek further disruptive work at a later date.

An earlier implementation date could be considered for installations for priority group consumers, where CERT provides a mechanism for up-front financing of energy efficiency measures, provided the system is proven suitable for the property type in field trials.

¹⁵ CERT, FITs, EU ETS, RO and CESP are all due to be reviewed or replaced in 2013.

3. Accessibility

We acknowledge and welcome the ambitions set out in the recently published HEMS to deliver energy efficiency to existing homes, but we are concerned that some consumers will be unable to access all the low carbon and energy efficiency measures due to practical restrictions such as access to upfront finance, type or location of property, or tenure. These disadvantaged consumers will see significant increases in their energy bills without any opportunity to gain any direct benefit.

Distributional impact

DECC's forecast for deployment of renewable heat installations sees it grow from a very low base with a rapid increase towards 2020. This in turn means that bill impacts will be more keenly felt towards the back-end of the current decade.

Consumer Focus maintains that the Government must drive whole house measures to households most in need in the immediate future, particularly those in fuel poverty or off the gas network.

CERT priority group

The current proposals would leave priority group consumers (as defined in the CERT programme) at a particular disadvantage in terms of installing renewable heat systems. The Government will consult later in the year on measures to help low-income households take advantage of the RHI.

Financing arrangements, such as PAYS, may free-up resources for low-income consumers as fewer subsidies may be needed for the able-to-pay sector. However as these are not due to be introduced until 2013, two years after the implementation of the RHI, it is not possible to make a judgement on their effectiveness.

In our response to the CERT extension consultation,¹⁶ we advocated the development of a CERT/FIT offering for priority group consumers. CERT should fund the installation and remove the need for priority group consumers to enter into PAYS agreements, while the FIT will partially repay the CERT costs with consumers benefitting from revenue after that repayment. This approach would encourage a whole house approach while reducing the risk of diverting funds away from more cost-effective measures. Renewable energy would have a separate funding mechanism to energy efficiency measures under CERT. A similar mechanism should be put in place for the RHI.

Consumer Focus recommends that for priority group consumers:

- any renewable heat system should be installed alongside energy efficiency measures. This would reduce disruption and administration and delivery costs. All funding should be provided by CERT, with the cost of the renewable heat system partially paid back via the RHI
- financial exclusion presents a major barrier for many low-income households seeking to engage with schemes such as the RHI. The Department for Business, Innovation and Skills recently consulted¹⁷ on extending services through the Post Office with a particular emphasis on solutions aimed at addressing financial exclusion and promoting the take-up of transactional banking. In our report *Opportunity Knocks*, Consumer Focus sets out our vision for an account that would meet these aims, one aspect of which is the ability for the account to receive payments.

¹⁶ <http://consumerfocus.org.uk/g/4ld>

¹⁷ BIS – Developing the banking and financial services available at the Post Office (<http://bit.ly/ccFFDG>)

There are many other barriers to take-up of renewable energy systems, but the ability to receive the incentive is an essential starting point and so we want any basic Post Office account to be able to receive low carbon incentives such as Feed-in Tariffs or the RHI

Rural consumers and those living off the gas grid

Consumers living off the gas grid are in particular need of an alternative to a carbon-intensive market that fails them in terms of cost transparency, choice, credit and customer service, and we advocate a scheme which prioritises delivery of renewable heat installations to this constituency. Indeed we note that the Energy and Climate Change Committee recommended in its recent report on fuel poverty¹⁸ that the process of introducing renewable technologies for fuel poor households off the gas grid should be accelerated. Consumers living off the gas network in rural areas presently have to use more carbon-intensive heating fuels. Evidentially they are also more likely to be living in fuel poverty due to higher fuel prices and older larger and less efficient properties. They also have less access to social tariffs and the potential benefits of competition.

The Government estimates that of the 4.3 million households without access to the gas network, 750,000 of these consumers are in fuel poverty.¹⁹ More recent work by the Commission for Rural Communities estimates that one in four rural households is living in fuel poverty.²⁰

More generally Consumer Focus has real concerns with the operation of the heating fuels market (eg heating oil and Liquefied petroleum gas (LPG)) where consumers face limited competition and a lack of choice, limited cost transparency, a lack of credit and poor customer service. We advocate that the Government should introduce a complementary strategy to tackle these issues by reviewing:

- market structure
- payment options
- where responsibility for these issues best sits within Government

Rural households have not, to date, benefited from programmes such as Warm Front²¹ and CERT Priority Group to the same degree as urban properties, because the latter enjoy higher population densities, easier-to-treat properties, and larger social housing developments²². To counter the bias to urban areas we believe that the RHI levy should only be applied to households reliant on heating fuels (ie without access to the gas network) once they have had the opportunity to benefit from energy efficiency measures under CERT or its successor the energy company obligation. Energy suppliers could also be incentivised by offering uplift in CERT scores or developing a specific target to encourage the displacement of heating oil use.

Consideration should also be given to increasing scores for CERT measures in parts of the country that experience more adverse weather conditions (eg north Scotland) and where consumers subject to affordability issues require higher energy usage. We note the Energy and Climate Change select committee also recommended in its recent report on fuel poverty²³ that the Government should consider developing a national energy efficiency database. This proposal should be urgently pursued as it could ensure measures are better targeted, deliver more cost efficient carbon savings and reduce energy bills for those in fuel poverty.

¹⁸ Energy and Climate Change Committee (<http://bit.ly/aYrXMI>)

¹⁹ Government estimates (<http://bit.ly/aOnIFs>)

²⁰ Commission for Rural Communities (<http://bit.ly/dtH9Nw>)

²¹ Warmfront (<http://bit.ly/dtH9Nw>)

²² *Evaluation of the Energy Efficiency Commitment 2005-08*. Eoin Lees Energy. (<http://bit.ly/cYE3oe>)

²³ Energy and Climate Change select committee (<http://bit.ly/aYrXMI>)

We also note that, if installations are sized with reference to a 'deemed' heat demand, based on a SAP rating, rural households will be less able to install energy efficiency measures due to the higher proportion of older housing stock where energy efficiency measures would be considerably more expensive. Therefore many property owners in rural areas may not elect to install renewable heat systems as the payments, estimated for a relatively thermally efficient property, would not cover the cost of the actual heat load nor be enough to encourage energy efficiency measures to be installed in many instances. This would compound the situation whereby rural consumers would face higher energy bills without benefiting from measures.

When considering delivering benefits of the RHI to vulnerable consumers, DECC should have particular regard to the needs of rural consumers and those in hard-to-treat homes who have not benefited as much from past and current energy efficiency programmes and a greater need for alternative heating sources.

Tenure

Consumer Focus supports the Government's concerns about the energy efficiency of private rental properties, and extends these concerns to the leasehold sector where freeholders may limit action by owner-occupiers. A third party payment mechanism may incentivise landlords to adopt renewable heating systems but, again, we believe that energy efficiency must be prioritised either through incentives or regulation.

We are also concerned about the balance of costs and benefits if a third party payment mechanism is used. Tenants may have to pay for electricity or biomass to fuel the heating system, and the third party mechanism must ensure that they do not end up paying more than they would have for fossil-fuelled heating.

4. District heating: call for evidence

We do not support the proposal for an uplift for district heating networks that serve hard-to-treat homes, as this will further increase the financial burden on energy consumers and/or taxpayers. However, we do agree that the needs of these households should be prioritised and our preference is for DECC to address their needs by:

- focusing CERT and the subsequent energy company obligation solely on priority group consumers, as the PAYS scheme or similar will lower financial barriers for the able-to-pay
- involving local authorities in energy service delivery, as outlined in the HEM strategy, and the use of the planning process to drive the most cost and carbon effective heating solution at district scale
- promoting cost-effectiveness, and using tariffs and accreditation to support the right heating systems for different property types in different locations

Further, Consumer Focus supports a review of heat policy to better balance the advantages of district heating with the limitations of on-site heat generation. Both district and on-site heating systems have a part to play in the low carbon transition, and we are concerned that the restrictions of the EU Renewables Directive may limit the strategic consideration of non-renewable combined heat and power (CHP) as part of a lower carbon heating mix.

District heating with CHP complements the technologies covered by the RHI, and offers the potential for conversion to renewable or other low carbon sources over time.

Our concerns about the current imbalance between support for heat pumps and CHP are due to the potential pressure that domestic heat pumps may place on electricity supplies and networks at peak times, uncertainty regarding the effectiveness of domestic heat pumps in the UK (both explored elsewhere in this response) and the inconsistent definition of 'renewable'.

What is renewable?

Heat pumps status as a low carbon technology is a function of their efficiency and the carbon content of the electricity supply.

In terms of efficiency, heat pumps can deliver multiple units of heat per unit of electricity consumed, but this is at a theoretical coefficient of performance of between two and four. In comparison, with a suitably designed steam turbine, CHP can extract 7-8 kWh of heat for every one kWh of electricity that is sacrificed²⁴ by the electricity generating system from its output.

Heat pumps are reliant on mains electricity of which currently only 5.5 per cent currently comes from renewable sources, although this is expected to rise to over 30 per cent by 2020. District heating networks may also be decarbonised over time, dependent on their source and design.

It seems that DECC is missing an opportunity to make fuller use of heat that is currently wasted and therefore lower carbon than other heat sources, and risks promoting the installation of micro and small-scale systems to the detriment of the area-based approach proposed by the HEM strategy.

Finally, Consumer Focus recognises that consumers have suffered from failures in district heating schemes in the past so does not wish to overstate its support for district heating as there are evidently risks. We are keen to ensure that any new district heating pilots include agreed standards of customer service and suitable redress mechanisms to ensure that customers' rights are protected and poor practice dealt with. We welcome DECC's and Ofgem's work on the Heat Market Forum and look forward to contributing to this process.

Consumer Focus wants a heating strategy and related incentive that more clearly recognises the differing cost-effectiveness of heating technologies in different settings. The further development of the RHI as part of a wider low carbon heat strategy provides a real opportunity to tackle these issues.

²⁴ *Per com* Mahmoud Abu-ebid Technical adviser to UK Government on the good-quality CHP scheme AEAT

Consumer Focus response to DECC's consultation on the proposed RHI financial support scheme

If you have any questions or would like further information about our response please contact Liz Lainé, Senior Policy Advocate, by telephone on 01636 816969 or via email: liz.laine@consumerfocus.org.uk.

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